

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 AEC-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-01 INR-05

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 EA-06 IO-10

NEA-06 OPIC-03 LAB-04 SIL-01 /110 W

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PASS TREASURY AND CEA

E.O. 11652: N/A

TAGS: OECD, ECON, EFIN

SUBJECT: WP 2 OF EPC MEETING DECEMBER 16-17

REF: CPE/WP2(74)4

1. SUMMARY. WP 2 CONCENTRATED ON DISCUSSING SECRETARIAT'S REFDOK ON MACRO-ECONOMIC IMPACT OF HIGHER ENERGY PRICES. THERE WAS LARGE MEASURE OF AGREEMENT ON BROAD CONCLUSIONS OF SECRETARIAT. SPECIFIC FOLLOW-ON COMMENTS BY COUNTRIES WILL BE RECEIVED WITH DEADLINE JANUARY 18 TO BE INCORPORATED IN NEW DRAFT WHICH, AFTER FINAL REVIEW BY MEMBER COUNTRIES WILL BE FORWARDED TO EPC. END SUMMARY

2. EPC'S WP 2 SPENT MOST OF MEETING REVIEWING REFDOK. THERE WAS BROAD AGREEMENT WITH MOST OF SECRETARIAT'S ANALYSIS AND CONCLUSIONS. US REP (KVASNICKA) SUGGESTED THAT DEMAND-SUPPLY MISMATCHES MIGHT LAST
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EVEN LONGER THAN TWO OR THREE YEARS. US DEL ALSO

INDICATED THAT AT LEAST IN CASE OF US, DIFFICULT TO BE CERTAIN THAT ONE-TIME LOSS IN POTENTIAL OUTPUT MIGHT BE AS LITTLE AS ONE OR AT MOST TWO PERCENT OF GNP, PARTICULARLY IN LIGHT OF INDIRECT EFFECTS FROM HIGHER OIL PRICES ON INDUSTRIES SUCH AS AUTOMOBILES.

3. PRELIMINARY CONCLUSIONS OF WORKING PARTY ALONG LINES TEXT REPRODUCED IN PARAGRAPH 5 WILL BE INCORPORATED INTO REVISED REFD. DELEGATIONS HAVE BEEN INVITED TO SUBMIT SPECIFIC COMMENTS ON BOTH THE CONCLUSIONS AND ON REFD. BY JANUARY 18. THESE COMMENTS WILL THEN BE INCORPORATED IN A NEW DRAFT TO BE CIRCULATED BY JANUARY 24 WITH WP 2 MEMBERS GIVEN DEADLINE OF FEBRUARY 8 FOR FINAL REVISIONS. DOCUMENT WILL THEN GO TO EPC.

4. NEXT MEETING WP 2 SCHEDULED FOR APRIL 7-8. AGENDA WILL INCLUDE

A. CONSEQUENCES OF EPC REACTION TO REPORT ON MACRO-ECONOMIC IMPACT OF HIGHER ENERGY PRICES,

B. DISCUSSION ON ONGOING WORK ON IMPACT ON GROWTH OF CERTAIN GOVERNMENT EXPENDITURES, AND

C. REPORT ON INCOME MAINTENANCE EXPENDITURES.

5. BEGIN TEXT

PRELIMINARY CONCLUSIONS BY THE WORKING PARTY ON THE MACRO-ECONOMIC IMPACT OF HIGHER ENERGY PRICES OVER THE MEDIUM TERM

THE WORKING PARTY AT ITS MEETING ON DECEMBER 16TH AND 17TH SEEMED TO REACH SOME MEASURE OF AGREEMENT ON THE FOLLOWING BROAD CONCLUSIONS.

SHORT-RUN EFFECTS

ON THE SHORT-RUN SITUATION, THE WORKING PARTY FELT THAT LIMITED OFFICIAL USE

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THE MOST IMPORTANT ISSUE WAS NOT A PROBLEM OF SUPPLY BUT ONE OF DEMAND INSUFFICIENCY STEMMING FROM THE SHIFT IN PURCHASING POWER TO OPEC AND FROM RESTRICTIVE POLICIES IMPOSED BY OECD COUNTRIES PARTLY IN RESPONSE TO THE OIL CRISIS. ON WHAT THE SECRETARIAT CALLED "DEMAND-SUPPLY MISMATCHES", THE WORKING PARTY WAS UNABLE TO PROVIDE ANY FIGURES. TWO MAIN FEELINGS WERE EXPRESSED:

(I) THESE MISMATCHES WERE NOT CONFINED TO THE SHORT-RUN, BUT COULD EXTEND OVER A SLIGHTLY LONGER TIME HORIZON (PERHAPS TWO OR THREE YEARS);

(II) THE ONCE-AND-FOR-ALL LOSS IN POTENTIAL OUTPUT

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IMPLICIT IN THEM NEED NOT BE VERY LARGE. THE FEW GUESSES WHICH WERE VENTURED DID NOT GO BEYOND 1, OR, AT MOST, 2 PER CENT OF GNP.

MEDIUM-RUN EFFECTS

THE MAIN CONCLUSION REACHED WAS THAT OVER THE MEDIUM-RUN IT WAS UNLIKELY THAT THE GROWTH RATE OF POTENTIAL OUTPUT WOULD BE SUBSTANTIALLY AFFECTED BY HIGHER OIL PRICES THOUGH THE SITUATION WAS LIKELY TO VARY FROM COUNTRY TO COUNTRY. IN PARTICULAR, EFFECTS COULD VARY

DEPENDING ON WHETHER COUNTRIES HAD A POTENTIAL FOR DOMESTIC ENERGY PRODUCTION OR NOT. IN THE CASE OF DEVELOPING MEMBER COUNTRIES, IN ADDITION, IT WAS FELT THAT GROWTH COULD BE SLOWED DOWN BY BALANCE OF PAYMENTS CONSTRAINTS WHICH COULD LIMIT THE VOLUME OF CAPITAL EQUIPMENT IMPORTS. AT THE SAME TIME THE WORKING PARTY EXPRESSED GREAT CONCERN OVER THE RESOURCE ALLOCATION PROBLEM ARISING FROM THE OIL CRISIS. SEVERAL NEEDS LIMITED OFFICIAL USE

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FOR RESOURCE REALLOCATION WERE MENTIONED:

(I) THE NEED TO SHIFT RESOURCES INTO THE EXPORT SECTOR TO SATISFY INCREASED OPEC IMPORT DEMAND;

(II) THE INCREASING INVESTMENT REQUIREMENTS OF ENERGY PRODUCTION, A SECTOR WITH AN ABOVE AVERAGE CAPITAL OUTPUT RATIO;

(III) THE INCREASING INVESTMENT NEEDS OF ENERGY CONSERVATION.

TAKEN INDIVIDUALLY, THESE VARIOUS EFFECTS COULD BE MANAGEABLE, BUT PUT TOGETHER AND ADDED TO OTHER REQUIREMENTS IN INVESTMENT (POLLUTION OR ENVIRONMENT) AND IN PUBLIC EXPENDITURE (SOCIAL INFRASTRUCTURE), THEY IMPLIED A RELATIVELY SHARP DECELERATION IN THE GROWTH RATE OF PRIVATE CONSUMPTION.

OVERALL CONCLUSION

THE MAIN CONCLUSION WHICH COULD BE DRAWN FROM THE DISCUSSION WAS THAT THERE WAS NO MAJOR SUPPLY PROBLEM BUT THAT THERE WERE SOME DIFFICULT ISSUES FOR DEMAND MANAGEMENT. ECONOMIC POLICY WOULD BE REQUIRED:

(I) TO OFFSET THE OIL CRISIS' DEFLATIONARY IMPACT IN THE SHORT-RUN;

(II) TO ENSURE THAT OVER THE MEDIUM-RUN RESOURCES WILL BE MADE AVAILABLE FOR INCREASED EXPORTS AND INVESTMENT.

IN ADDITION, IT WAS ALSO FELT THAT DEMAND MANAGEMENT WOULD HAVE TO COPE WITH THE LIKELY MISMATCH BETWEEN OPEC SAVINGS AVAILABLE AT PRESENT AND INCREASED OECD INVESTMENT REQUIREMENTS LIKELY TO ARISE ONLY IN THE FUTURE. END TEXT
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